and industrial chemicals—and encouraged U.S. companies to substitute foreign-made capital goods for domestic ones such as are made in Alabama. Demand for exports should revive this year, but slowly. World economic conditions will also be an important determinant of energy demand. A moderate energy recovery appears likely and Alabama coal fields, oil and gas production, and the Mobile docks should all benefit.

In *Florida,* early signs of stronger activity are appearing. The decline in residential construction seems to have halted, although homebuilding remains dependent on inmigration, which dropped sharply in 1982. Population growth in 1983 should surpass last year's 200,000, but still be relatively slow compared with 1978-1981. After no growth in 1981 and 1982, tourism should pick up in 1983. EPCOT will play a significant role in bringing new visitors to the state, and Miami officials say the city's tourism should recover from a dismal year in 1982. Foreigners, who contribute significantly to Miami's tourist trade, found a Florida vacation costly last year because of the dollar's high exchange rate. Whether foreign tourism picks up will depend to a great extent on the value of the dollar and on world economic recovery. International trade and finance will be affected by those same factors. A relatively strong dollar, though bad news for Florida tourism, should encourage import value. Phosphate export shipments are starting to pick up, but exports to Latin countries should remain weak. International banking and finance have contributed to a boom in office construction and redevelopment of Miami's downtown district. Continued development of international finance in 1983 could help transform Miami from a struggling tourist resort to a thriving international city.

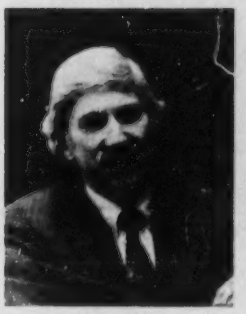
The oil and gas industries and international trade propelled *Louisiana's* economy through national recessions in 1973-1975 and 1980 with minimal damage. Not so in 1981-1982, as oil boom turned to oil bust and volume stalled at Louisiana's ports. In 1983, Louisiana's economy is likely to revive at a slower pace than that of the nation. The faster and stronger the recovery worldwide, the more likely that Louisiana's economy will revive quickly. National and international growth are fueled by products from Louisiana's energy sector, while much of the output of the U.S. and world economies is exchanged through the state's ports.

The general outlook for *Mississippi* in 1983 is for moderate economic growth, probably gradual during the first half of the year and speeding up toward the year's end. The unemployment rate should improve slowly, and will remain above the national average for most, if not all, of the year. Industries most important to the state—apparel, machinery, food and transportation equipment—should respond relatively quickly if interest rates continue to fall and consumption rises. Lumber and other construction-related firms will benefit in 1983 from an increase in residential construction. For farmers, 1982 turned out to be the third consecutive year of low net farm income. For 1983, little improvement seems likely, although net income should rise. Mississippi's ports and inland river commerce have suffered from the worldwide recession and the strong dollar, but business should improve this year. The oil and gas industry fell on hard times during 1982. Moderate growth should occur in 1983, although price uncertainties and tax concerns threaten to keep drilling activity from rebounding strongly.

Nationwide recovery in construction is the key to improvement in *Tennessee's* economy because many of the state's industries are tied to construction. Transportation-related manufacturing may also show improvement in 1983. A significant development will be the opening of a Nissan truck assembly plant near Nashville. Beyond its local economic impact, the facility's high-technology nature may mark the beginning of a restructuring of Tennessee manufacturing. Proximity to the University of Tennessee, the Tennessee Valley Authority (TVA), and Oak Ridge National Laboratories makes eastern Tennessee a likely location for high-tech firms, but the depressed outlook for capital spending nationally diminishes the probability of major high-tech developments this year. Outside manufacturing, one of the weakest sectors is government; the state faces a budget shortfall that will exacerbate the effect of federal budget cuts. Services and trade are likely to fare worse in 1983 than in 1982. Changing patterns of energy use indicate a long-term deceleration in the state's important energy sector. Demand for tobacco, one of Tennessee's major cash crops, is likely to be depressed by recession and a 200 percent increase in the federal excise tax on cigarettes. International economic conditions also bode ill for most other crops; for other Tennessee exports such as chemicals; and for textiles and apparel products, which are sensitive to competition from foreign imports.

"America's Breadbasket"

J. Dawson Ahalt
U.S. Department of Agriculture



J. Dawson Ahalt

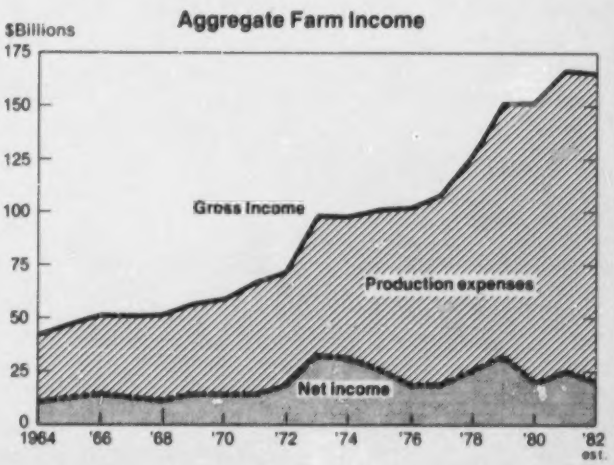
American farmers are entering a fourth year of financial distress. Last year, net farm income dropped one-fifth, to an estimated $20.4 billion. Farm debt increased sharply, while declining land values reduced farm assets. A number of farmers reached their debt limit and a few went bankrupt. Prospects for improvement during the next several years hinge on economic recovery, both domestic and worldwide; the effect of weather on global crop production; and the success of the payment-in-kind (PIK) program and other acreage-reduction programs in cutting supplies of farm products.

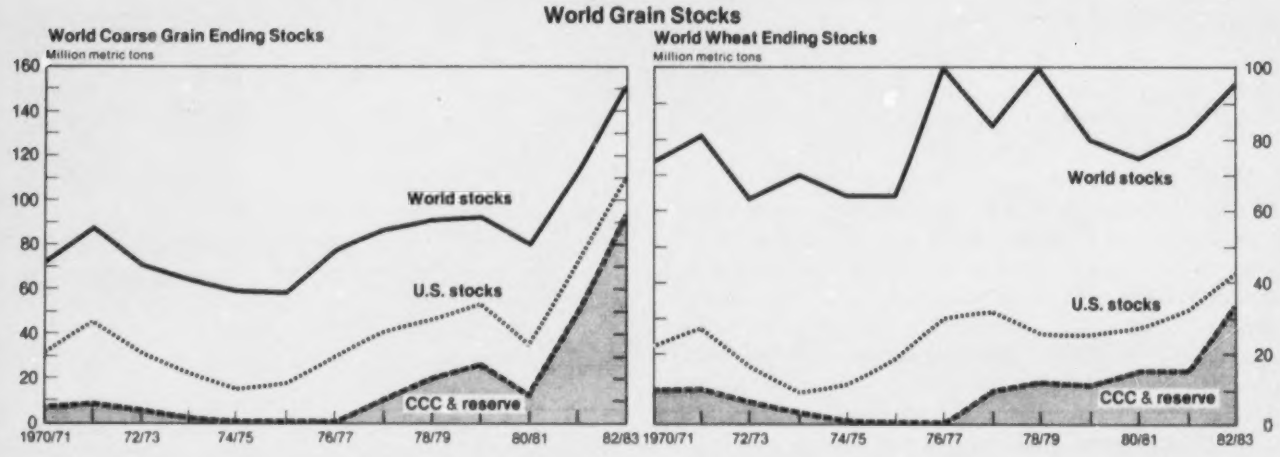
Through the 1970's, a buoyant world economy and a weak U.S. dollar accelerated demand for farm products. The world's farmers responded, shifting output into high gear. U.S. farmers were especially responsive, aided by a favorable investment climate, new technology, and rising price supports. During the early 1980's, with nearly every country in recession, demand for farm commodities such as wheat, coarse grains, and cotton has stagnated. Yet many financially strapped farmers find it tough to cut output. Remarkably good weather for two years running has accented this tendency, driving world farm output to new peaks. Except for the United States, food exporting nations have been reluctant to make needed supply adjustments. The problem has been compounded by moves toward more protectionism by many nations. Stocks of unsold commodities loom ominously not only over today's markets, but tomorrow's. As large stocks are carried forward, they will add to next year's supplies. This increases the pressure for programs to curb this year's production. Solution of current farm problems must come from a rebuilding of demand through economic recovery, coupled with necessary adjustments in supplies.

We expect a gradual revitalization of demand for U.S. farm products during the next several years. As U.S. economic activity recovers this year, domestic demand will begin to pick up, especially for livestock foods. Foreign demand for U.S. farm products will recover more slowly. Farm exports dropped from nearly $44 billion in fiscal year 1981 to $39 billion last year, and are likely to decline further this year. Excellent weather has reduced import needs in many countries, and most nations remain in recession. Although OECD countries will begin to recover from recession this year, recovery in developing countries will lag. But even as recovery happens, food import demand will continue to be dampened by high unemployment in industrial nations and by foreign-exchange problems in many Third World and centrally planned countries. Last year, a strong dollar made our exports less competitive. Recently, the dollar's value has dropped slightly against major currencies, but not against those of developing countries.

World farm production was elevated last year. Grain production surpassed the 1.5-billion-ton mark, oilseed output jumped sharply, another huge sugar crop was harvested, and foreign cotton output set a record. Much of this added production will add to stocks, especially in the United States. At the end of this crop year, we may hold about 60 percent of world grain stocks, which stand at their highest point in relation to global use in more than a decade. Our stocks of rice, feed grains, and cotton this summer will be about triple those of two years earlier; our wheat stocks up by half; and soybean stocks up by a fourth. These levels depress prices.

In order to qualify for 1983 farm-program benefits, farmers must set aside a portion of their crop acreage, and they can divert an additional portion for a cash payment. The new PIK program offers them the option of setting aside more land—or even their crop-land base—in return for a payment in kind at harvest. In effect, farmers can be assured a yield from the PIK acres with little or no out-of-pocket cost. It appears that a substantial proportion of farmers plan to participate in the PIK program. The effect could be dramatic. Harvested acreage of the five covered crops could drop 23





million acres because of PIK alone; harvested acreage of all food and feed grains, soybeans and cotton could drop by about 35 million acres—or by 13 percent. Depending on yields, this could cut 1983 crop production sharply.

PIK's second effect would be to reduce mid-1984 ending stocks of wheat, corn and grain sorghum by a total of 600 million bushels, or 11 percent, from this year's level. These stocks previously were expected to rise. Cotton and rice stocks also would drop. It may take a second year of PIK to liquidate burdensome stocks. However, the program is seen only as a transitional measure. Because stocks will remain quite large, PIK's impact on farm prices over the next year may be limited. However, it could substantially reduce farmers' input costs.

The sharp expected acreage cut in store for 1983 will be a short-term hardship for depressed farm input industries. Fertilizer, pesticide and seed purchases could decline sharply; but farm equipment purchases, linked more to net returns than to plantings, may not be affected much. In 1984 and beyond, farmers' sounder financial footing should bolster input sales.

With low farm prices, government price-support activities may hit an unprecedented $18 billion this fiscal year. PIK helps here, too, by cutting projected government outlays by $3 to $4 billion over the next two years. However, by subsidizing farm exports, other nations are forestalling their share of the production adjustments. The United States continues to press for freer trade, but with meager results. To offset markets lost to subsidies, the President has authorized nearly $3 billion in blended export credits. Also, we are using government wheat stocks to assist a sale of wheat flour to Egypt. These moves demonstrate U.S. determination to pursue export markets aggressively.

While it is too soon to predict 1983 farm income with a high degree of accuracy, preliminary indications are that net farm income could drop from last year's $20.4 billion, ranging from $16 to $20 billion after a negative inventory change. Farm production expenses could hold steady or even drop, reflecting very low price inflation and reduced crop production. On the other side of the ledger, higher livestock receipts and government payments may be more than offset by lower crop receipts, reducing gross farm income. Farm income could improve in 1984 as the large crop stocks are reduced through the PIK program and economies strengthen here and abroad.

The Southwest

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Nineteen eighty-two will be remembered as the year the recession finally hit the Southwest. As 1983 began the region's unemployment rate stood at 9.1 percent, up from 7.0 percent at the start of 1982. During 1982, the region's jobless rolls grew from 774 thousand to 1.1 million, and total employment contracted for the first time in memory (see table). Although all of the southwestern states are posting unemployment rates below the national average, the gap has narrowed considerably over the past year. The relative increase in the *number* of unemployed during 1982 was actually higher in Texas and Oklahoma than it was for the nation.

Of course, not all industries and areas have suffered to the same degree. Most of the job losses have occurred in manufacturing, transportation and construction, while employment has increased in retail trade, finance, health services and government. In places like Austin and Abilene, where unemployment is hovering around 4 percent, few signs of recession are visible. By contrast, in Beaumont-Port Arthur-Orange and Lake Charles, with unemployment at 12.4 and 14.2 percent respectively, local economies have been severely disrupted.

The Southwest's economic outlook in large part hinges on the nation's. Fortunately, evidence is mounting that the long-awaited national economic upturn is finally under way. For almost a year the Commerce Department's index of leading economic indicators has been positive. Help-wanted advertising, according to The Conference Board, has been up for some months now after declining for over a year, and initial claims for unemployment insurance have been dropping. Monetary and fiscal policy during 1983 should facilitate economic recovery. Federal Reserve Chairman Volcker has stated his intention to nurture economic growth by keeping interest rates down, and the personal tax cut slated for July will increase disposable income by some $30 to $40 billion. The 98th Congress is likely to be less concerned with budget deficits and more concerned with job-creating measures, such as public works programs. Taking all these factors into account, the consensus of forecasters is that real gross national product should grow about 3.5 percent in 1983, a marked improvement over 1982's shrinkage.

Unemployment Rates in the Southwest

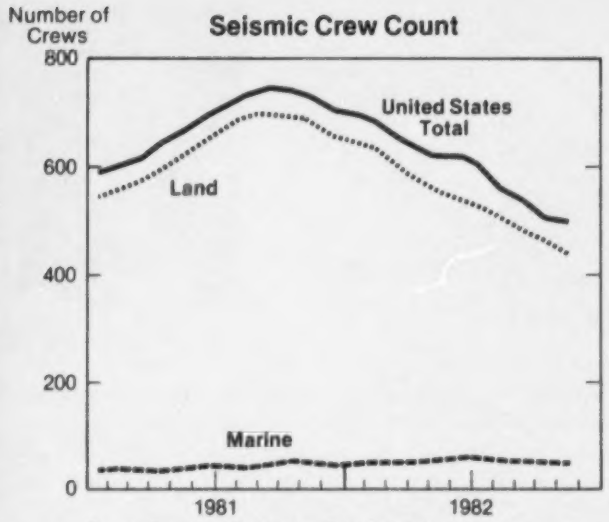
	January, 1982	*January, 1983*	*Percent Change in Number of Unemployed*
U.S.	9.4%	11.4%	22.9%
Southwest	7.0	9.1	38.2
Texas	5.9	8.5	51.5
Oklahoma	4.7	7.7	60.7
Arkansas	11.2	11.1	0.8
Louisiana	9.4	11.3	19.8

Source: Bureau of Labor Statistics.

Against this national scenario, the economic outlook for the Southwest is a mixed bag. The Southwest is not a single entity. Instead, five distinct economic subregions can be identified: the Texas Triangle, the Oil Patch, the Industrial Crescent, the Food and Fiber Belt, and the Border. Some of these regions should do well during the coming year; others not so well.

The Texas Triangle encompasses the area bounded by Dallas-Fort Worth, San Antonio, and the north and west sides of metropolitan Houston. Over 60 percent of the state's population resides within this economic subregion, and the Triangle is home for Texas' major high-technology manufacturers and financial institutions. The Triangle has suffered the least from the lengthy recession and will be the first area in the region to reflect national economic recovery. Electronics, instruments and aerospace have been fast-growing industries for over a decade, and rapid growth should resume as the economy expands. Major defense contractors are also located within the Triangle, and accelerating purchases of military hardware by the U.S. armed forces, as well as by foreign governments, will pump billions of additional dollars into the region over the next several years. Dallas-Fort Worth and Houston are expected to lead the nation in new housing starts during 1983 and 1984.

The Oil Patch consists of the major energy-producing areas in West Texas, Central Oklahoma, and offshore Texas and Louisiana. During the 1970's, these areas experienced an unprecedented boom due primarily to OPEC and the decontrol of oil and gas prices. For the past year, however, the Oil Patch has been severely depressed. The prolonged national recession, coupled with declining world oil prices, pushed the drilling rig count down 50 percent during 1982. Dozens of drillers and oil-field service companies have gone bankrupt, and pipe and equipment manufacturers are overstocked with inventory. Although the active rig count will probably



Source: Society of Exploration Geophysicists.

increase slightly from its current level, the Oil Patch will remain in recession throughout 1983. As evidence, the seismic crew count, which is considered a leading indicator of drilling activity, has fallen 33 percent since peaking in September, 1981, and continues downward (see chart).

The fortunes of the Gulf Coast Industrial Crescent, stretching from Corpus Christi to New Orleans, are closely linked with those of the Oil Patch. Refining, petrochemicals, steel, shipbuilding and water-borne commerce dominate the Crescent's economy. During 1982, unemployment rates doubled in Beaumont-Port Arthur-Orange, Houston and Galveston-Texas City. Refineries and petrochemical plants are currently operating at less than 70 percent of capacity, major layoffs have occurred at all steel companies, and shipbuilding is at a standstill. Shipping volume is also down substantially in all Gulf ports. The outlook for the Industrial Crescent in 1983 is extremely cloudy. The region's refineries and chemical plants will probably operate below 75 percent of capacity throughout the year, and the steel business will not pick up unless drilling activity improves markedly. A projected continuation of the worldwide recession does not augur well for import-export activity or shipbuilding and repair.

Beginning in the Oklahoma and Texas panhandles and following the Red River and the Louisiana border, the Southwest's Food and Fiber Belt supplies the nation and much of the world with grain, cotton and wood. Depressed prices for food and fiber during 1982 pushed real farm incomes to their lowest levels in ten years. Nineteen eighty-three will not be much better. Much of the region's agricultural output is exported, and a strong dollar coupled with good harvests abroad has dampened prospects for increased foreign sales during the coming year.

Three devaluations of the Mexican peso in 1982 have turned the Southwest Border into a disaster area. Retail sales have declined 50 to 75 percent over the past year, and production in border plants has been severely curtailed. Unemployment rates currently exceed 20 percent in Laredo and McAllen, and Brownsville is close behind. With Mexico technically bankrupt, economic conditions along The Border will probably deteriorate even further during 1983.

Though not as dependent on the energy sector as a decade ago, the southwestern economy still marches in tune with oil and gas prices. The possible demise of OPEC, coupled with congressional reluctance to fully decontrol natural gas prices, could spell long-term trouble for the region.

The Mountains

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After staying well below the national average in 1980 and 1981, unemployment rates in the Mountain states moved up by 2 to 5 percentage points between the Fall of 1981 and the Winter of 1982. For example, Arizona's rate rose from 6.5 to 11.1 percent, Colorado went from 5.5 to 9.5 percent, and Wyoming from just over 3 percent to nearly 10 percent. While the slowdown in the Mountain region has been less severe than in many other parts of the United States, and already is showing some signs of turnaround, the recent change of pace from the boom years of the late 1970's, and the energy boom of 1979-1981, is noticeable indeed—and not without pain.

While it is easy to say that energy prices were the

primary culprit in the "decline of the West," a good case can be made that the change of pace is the consequence of a variety of factors. It is true that the decline in energy prices early in 1982 led directly to a slowdown in oil, gas and synthetic fuels, which are important in the economies of nearly all the Mountain states. But it was the extended national recession that sapped demand for the region's copper, molybdenum, uranium and other nonferrous metals; for lumber; for coal; for electronic and high-technology products; and for tourist-related trade and services. And in a region where agriculture still plays a significant role, depressed crop and livestock prices added to the difficulty. Moreover, rising unemployment, along with uncertainty about the future course of the national economy, dampened local consumer confidence so that 1982 gains in retail sales were generally the lowest since the 1974-1975 recession, and only fractional gains were made in trade and service employment. Total regional employment in 1982 was slightly below its 1981 average, and regional personal income rose only 5.1 percent from third quarter 1981 to third quarter 1982, compared with a 5.6 percent national increase.

In assessing the Mountain states, it is useful to distinguish two sets of states that are affected by different economic factors. Montana, Idaho and Wyoming, each with a total population under one million, fit the image of the west as wide open spaces. Even the largest cities have populations well below 200,000, there is little manufacturing, and close to half of the population is classified as rural. Mining, oil and gas, agriculture, lumbering and tourism are the primary engines of economic growth. It is these industries that have been increasingly under pressure in the past several years, although lumber has recently shown some sign of revival. As a result, personal income in Montana and Idaho grew only 2.7 percent between third quarter 1981 and third quarter 1982, and Wyoming showed only a 3.4 percent gain.

In contrast, the other five states in the region are intensely urban. Colorado, Arizona, Nevada and Utah are well above the national average in percent of urban population, and New Mexico's urban population is at the national average. Indeed, more than one-third of all the people in the Mountain states live in one of four large metropolitan areas: Denver (1.7 million), Phoenix (1.6 million), Tucson (551,000), and Salt Lake City-Ogden (950,000). Nevada, with two-thirds of its employment in trade and services, is perhaps best described as one of a kind. But over the past decade, Colorado, Arizona, Utah and New Mexico have shown rapid urban population growth; substantial and increasing manufacturing employment; and the development of sophisticated trade, services and finance. Electronics components, automated office equipment, and other high-technology manufacturing have been important elements of growth.

Although these urbanized states managed to show continuing growth in 1980 and 1981, it was slower than in 1978 and 1979, as the volume of residential construction was stunted by high financing costs and growth in manufacturing employment steadily weakened. Depressed copper prices led to significant mining employment layoffs in Arizona and Utah; both Utah and Colorado felt the dissipation of the energy boom; and low molydenum prices forced the Amax shutdown of a major portion of its Colorado mining activity. Among these states, only Utah managed any employment growth in 1982, and that was a meager 0.45 percent.

The outlook is mixed. National economic recovery and the lower interest rates that fuel it will have substantial expansionary effect on construction, manufacturing and services employment. Higher consumer spending should boost tourism across the region, with an especially positive effect on Nevada and Arizona. However, mining and agriculture will take longer to recover and the possibility of further declines in oil prices threatens the substantial part of the regional economy geared to oil and gas exploration and development. In the short term, lumber will respond to the pickup in housing; in the longer term, however, the lumber industry, which is ir portant for both Idaho and Montana, will see slow growth as smaller homes and new materials reduce lumber requirements per unit.

Mining is facing not only the slowdown associated with recession, but also longer term changes in demand and supply. Downsizing, recycling and the substitution of new materials for traditional metals are long-term changes that will restrain the growth of demand. And, on the supply side, developing countries with higher quality ore bodies, lower labor and transportation costs, and government subsidies to promote the earning of foreign exchange will increasingly be able to undercut U.S. production. Given the outlook for agriculture, mining and energy, employment growth in 1983 will be less than 2 percent for Montana, Idaho and Wyoming. Continuing national recovery should help raise that to the 2 to 3 percent range in 1984. The urbanized states in 1983 should see employment growth of 2 to 3 percent. As expansion develops, Arizona, Colorado, Nevada, New Mexico, and Utah can anticipate employment growth of 4 to 6 percent in 1984.

Lower interest rates are already producing increased residential construction across the region, with Colorado's housing starts in 1982 up 17 percent over 1981. Nearly all the Mountain states should register a 25 to 35 percent gain in residential construction in 1983, with special force in the rebound of single-family homes. Nonresidential construction is mixed. Denver's three-year, energy-driven office construction boom is coming to a close, with double-digit vacancy rates beginning to appear. Estimates are that it will take from three to five years to absorb the overhang. Denver area industrial and retail construction should respond favorably to economic

recovery and increases in consumer spending. After three years of no growth in nonresidential construction, Phoenix is anticipating a nice turnaround with hefty increases in office space as well as in retail and industrial building.

With a national recovery, manufacturing employment, which has been an important growth element for Arizona, Colorado and Utah, should show increases averaging 4 percent in 1983, and 6 to 8 percent in 1984. Depending on the strength of the 1983 recovery, Phoenix—with its ties to the electronics industries of Southern California—could well see a gain in manufacturing jobs of 8 percent or more in 1984. Overall, the urbanized Mountain states should see employment growth of 2 to 3 percent in 1983. As expansion develops, they can anticipate employment growth of 4 to 6 percent in 1984.

Personal income growth for the region probably showed an average 6 percent increase for 1982, but should be 8 percent in 1983, and 9 percent in 1984. Higher inflation than now anticipated would raise those percentages. Although the states with large urban centers are likely to see higher growth rates than their less urban counterparts, indications are that the Mountain states as a whole should match or exceed the nation's average rate of economic growth over the next several years.

The Pacific

Larry J. Kimbell
UCLA

Larry J. Kimbell

Personal income growth from the third quarter of 1981 to the same quarter of 1982 was close to the national gain in California, Hawaii and Washington, far ahead in Alaska, and well behind in Oregon (see table).

Alaska is a world apart from the rest of the states, both geographically and in terms of its economic activities. As shown in the table, Alaska's nonagricultural employment grew 6.2 percent in 1982—during the worst and longest recession in post-World War II history. Personal income rose 21.2 percent in Alaska from the third quarter of 1981 to the same quarter of 1982. Last year, oil riches enabled Alaska to provide an oil rebate and support construction with state-subsidized mortgages. The OPEC price drop will slow activity in Alaska this year and next. A severe price break, say to $20 per barrel, could shut down North Slope production and bring the oil boom to a sudden halt. It is very unlikely, therefore, that Alaska will outrun the U.S. economy in 1983 as much as it did in 1982.

Recent Evidence on the Pacific Region

	US	AK	CA	HI	OR	WA
Personal income—% change Q3 '81 to Q3 '82	5.5	21.2	6.7	6.3	3.5	5.7
Unemployment rate(%), January 1983	11.4	12.3	11.7	5.6	13.6	13.3
Employment change (%), 1981 to 1982						
Total nonfarm	-1.6	6.2	- 0.6	-0.9	- 5.7	- 2.6
Durables manuf'g	-8.3	n.a.	- 4.5	-4.7	-10.6	- 5.6
Lumber & wood	-8.2	n.a.	-19.2	n.a.	-12.8	-11.4

Hawaii's recent economic performance was slightly better than the national average in terms of personal income growth and job losses. Its unemployment rate was far below the national averge in January, 1983. Tourist traffic has benefited from airline fare wars on the very competitive Pacific routes, but these special rates could disappear any day. Also, hurricane damage will take months to repair, possibly slowing the tourist traffic. Agriculture in Hawaii suffers from foreign competition for its pineapples and other fruits, as well as low sugar prices. Some plantations destroyed by the hurricane do not plan to reopen. Nevertheless, tourism is highly income elastic, so with U.S. real disposable income expected to increase 4.3 percent from the fourth quarter of 1982 to the same quarter of 1983, Hawaii should recover reasonably well.

California, Oregon and Washington shared a common fate during the long housing depression from 1979 to 1982, namely, each lost significant employment in the lumber and wood-products industry. In 1979, Oregon had 81,000 people in this industry, 10.6 percent of U.S.

lumbering employment and 47 percent of all durable goods manufacturing employment in Oregon. California had the second highest lumber employment among these three states, with 69,000 jobs in 1979, 9 percent of U.S. lumbering jobs but only 5 percent of the employment in durable goods manufacturing in California. Washington employed 54,000—7 percent of the nation's lumbering jobs and 24 percent of Washington's durable goods manufacturing jobs. From 1979 to 1982, lumbering employment dropped 30 to 35 percent in the three states, compared with 20 percent nationally.

The outlook for lumber and wood products has brightened very quickly with the spectacular housing recovery in early 1983. Housing starts exceeded an annual rate of 1.7 million units in both January and February, back to the 1979 level. Mortgage rates have dropped from the punishing level of 15.4 percent in 1982 to under 13 percent. Savings and loan associations are attracting large deposit flows to the new competitive accounts, and spreads between new mortgage rates and the cost of funds are attractive. Lumbering will not recover as quickly as housing starts, but a strong recovery is nevertheless very likely. Oregon, with the greatest dependence on this industry, will benefit the most.

Employment in the aircraft and parts industry fell more than 5 percent in both California and Washington in 1982. Ordinarily, a severe recession might make this expected. What is unusual this time is that the drop coincided with a major buildup in defense spending, including a restarted B-1 program, on-going F-18 development, initial research and development on a new "stealth" technology, and other military aircraft parts production. However, the commercial business at Boeing, McDonnell-Douglas, and Lockheed has been devastated. Lockheed is phasing out production of its lone commercial venture, the L1011; McDonnell-Douglas received only one order for the DC-10 in the last 13 months; and Boeing has slowed production lines on its jumbo jetliners.

The Pacific outlook is cautiously optimistic. The growth of real defense spending will probably slow down but continue to outpace real GNP growth for years to come. Airlines, if they finally stabilize fares, either through new regulation or through bankruptcies, will see a reasonably strong pickup in revenue passenger miles; also, fuel costs are lower than in 1981, as are interest costs. Massive losses for major trunk lines are likely to stop soon. Boeing is launching two new commercial jets, the 757 and 767, with a considerable amount of subcontracting in Southern Canifornia. McDonnell-Douglas is betting on a mid-size plane with better fuel efficiency. Continuing defense orders and reviving commercial activity should gradually restore jobs in these important industries in California and Washington, with growth starting in 1983 and accelerating in 1984.

California, Oregon and Washington will be helped by the housing-led recovery now under way in the U.S. economy, not only in terms of lumber production but also because of added residential construction activity. Aerospace production will revive in 1983 and 1984. These states, which now have relatively high unemployment, will match or exceed job growth in the United States generally. Unemployment will drop but remain above the national rate because of migration.

In summary: A strong recovery has begun in the U.S. economy with housing leading the way, due to sharply lower interest rates. Consumer spending has been cautious, but strong growth in real disposable income augurs well for consumer spending in 1983. Real defense spending will continue rising rapidly, even if the President's requests are cut back by Congress. The Pacific region will respond well in this environment with gains in personal income and jobs slightly faster than in the United States.

Alaska's key risk lies in a break in oil prices to below $25 per barrel—not predicted but not improbable.

California is battling the "raiders" of its high-tech job base. High home prices are a major deterrent to expansion in urban coastal California, so as growth resumes in electronics and computers, expansion could easily go elsewhere.

Hawaii's worry is that airline fare wars will end and boost prices sharply.

Oregon must be concerned about large federal deficits possibly colliding with restrictive monetary policy, aborting the housing recovery as it did in 1981.

Washington faces the risk of losing its low cost electricity position, based on hydroelectricity, and becoming a much higher cost state. The state is awaiting the outcome of litigation concerning its public nuclear power system, potentially the largest municipal bankruptcy in the history of the U.S.

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Research Bulletin

Summer Youth Employment:

The Corporate Experience

by Leonard Lund
and
Nathan Weber

The Conference Board

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Introduction

The proverbial summer job, once the casual concern of students and local employers, has become a matter of public policy during the past few years. Formerly, a summer job was a means to extra spending money, or a way to meet the upcoming year's college expenses. It was also an inexpensive way for employers to bridge vacation absences. Now, a summer job also can mean a socially responsible act for an employer, an opportunity for a meaningful employment experience for a young person—student or nonstudent—and a way to keep a community "cool" during the summer.

Summer-job programs today are organized community efforts, developed and marketed with some of the same techniques used for products or candidates. These "campaigns" to provide jobs for disadvantaged youth involve scores of volunteer corporate executives, numbers of community and governmental agencies, business and political leaders, and an extensive and sophisticated use of advertising media.[1] (Note the details of the "Summer Jobs for Youth/82" campaign in New York City, pages 12-13.)

Other job programs may also include the participation of the National Alliance of Business, which has published a handbook on how to organize and conduct such programs, and local Private Industry Councils.[2]

The Background

Throughout the early 1970's, the role of the private sector in summer-job programs had been limited primarily to providing some of the jobs, or making cash and in-kind contributions, often at the request of a local government or community agency. But by the end of the decade, corporate leaders in many industrial cities were undertaking more active efforts to coordinate the private sector's involvement.[3]

During the Summer of 1982, programs organized and operated by the private sector were under way in numerous cities, often in addition to—or in cooperation with—the government-funded CETA projects.[4] This move from a largely passive to an active role coincides with the Reagan Administration's emphasis on voluntarism and private-sector initiatives as an alternative to government programs in the resolution of pressing social and economic problems. It may also reflect a growing awareness on the part of corporate management that summer youth unemployment remains an issue serious enough to warrant concerted or organized approaches. While many firms continue to administer their own summer-employment policies, apart from any coordinated undertaking, there is a discernible move within the private sector away from individual, and toward cooperative solutions.

This development has affected government and social organizations as well as other corporations. In some cities, in fact, private firms have taken the initiative to request cooperation by local government agencies—generally a reverse of the historic situation in which some local or federal authority would make an appeal to private companies to "give a damn," as a popular promotional campaign once put it. In Atlanta, Georgia, for example, the Housing Authority was contacted by two major corporations to provide youths for the companies' individual summer openings. Following these requests, the Authority attempted to interest other firms in the city, and will continue that effort for the Summer of 1983. In turn, the Authority is working with its tenant associations on an information and publicity campaign, thereby extending the participation to additional sectors.

Summer Jobs as a Public Policy Issue

The availability and distribution of summer jobs became public policy issues following the summer riots of 1964, when federal manpower and training legislation added summer programs as an antidote to that season's idleness and as a way to pump funds into the hands of disadvantaged young people in many urban centers. Expanded recreation programs, as sponsored by private

About This Research

A major policy initiative of the present Administration is reliance on the private sector as an alternative to government in the resolution of social and economic problems. To explore the effects of this policy as it applies to summer youth employment, The Conference Board undertook a review of corporate experiences during the Summer of 1982.

A questionnaire on individual and community youth employment practices was sent to the largest corporations in cities of over 250,000 people. Of this sample of 480 companies, responses by 176 firms, or just over one-third of the population, provide the data for part of this report. In addition, interviews were conducted with private-sector program coordinators in fourteen cities, selected on the basis of size and location.

[1]The term "disadvantaged youth" includes young people (16 to 21) who qualify under the Comprehensive Employment and Training Act (CETA) definition of being economically disadvantaged, that is, a member of a family receiving public assistance, or part of a family whose income in the previous six months does not exceed the poverty level or does not exceed 70 percent of the lower living standard income level.

[2]National Alliance of Business, *Summer Youth Employment, A Technical Assistance Guide*. Washington, D.C., January, 1982.

[3]Henrietta Schilit and Richard Lacey, *The Private Sector Youth Connection, Volume I: School to Work*. New York: Vocational Foundation, Inc., 1982, esp. Chapter 8: "Summer Youth Employment."

[4]CETA is being phased out, and will be replaced by The Job Training Partnership Act.

and public agencies, had not proved to be adequate deterrents to youth unrest.

By 1980, the CETA summer-job program was providing public-sector placements for more than 700,000 young people. This was in addition to job programs provided by individual companies and those public-service jobs financed by charitable organizations and local governments.

Many of these locally funded programs were traditional seasonal jobs in parks and playgrounds. Youths were employed as recreation workers, lifeguards or maintenance people, and performed simple clerical functions. The federally funded CETA summer jobs were essentially similar in nature, and in some instances merely replaced existing positions with CETA-eligible candidates, rather than increasing the number of jobs available.

The CETA summer-job program stirred controversy in much the same fashion as the other countercyclical public-sector employment programs created by the Act. Some critics of CETA charged that the summer employment programs were merely "leaf-raking" jobs, providing scant usefulness as a work experience that could be translated into permanent employment—one of the stated objectives of the program. A more devastating critique of the program was made by former Senator Lawton Chiles of Florida, who "has charged the summer program with having a plainly adverse effect on youths whom it is supposed to prepare for the job market. The senator says that, from watching their indolent and indifferent supervisors, the young trainees 'get such a strong message of cynicism and corruption that it cannot fail to carry over into their attitudes about work, crime, and society.' "[3] At the same time alleged "horror stories" circulated about physical intimidation of municipal supervisors by crews of CETA summer workers so that they would be required to do little or no work.

On the other hand, there are examples of job programs that are providing young people with some valid job experience while benefiting the community. A study of the CETA program, conducted by the National Council on Employment Policy in 1981, found that these jobs for in-school youths benefited participants by providing income and involvement in rudimentary work activities. However, they offered no training. Nevertheless, the Summer Youth Employment Program did help reduce unrest, lower youth arrest rates from 3.2 percent to 1.5 percent, and lessen failure to return to school from 9.4 percent to 6.1 percent.[4] Despite whatever weaknesses may have been identified, the value of continuing the summer-job programs has been confirmed and publicly underwritten. The Job Training Partnership Act, a replacement for CETA, calls for grant allocations of $725 million to support 718,000 summer public-sector jobs in fiscal year 1983 and the same number in FY 1984.[5] Moreover, the President has placed a high priority on urging business people to hire young people for summer jobs. The Administration has, in addition, proposed legislation allowing for a "subminimum wage" for summer youth jobs; the proposal assumes that a lower wage will encourage more such hirings.[6]

Experience From the Summer of 1982

The overall environment for summer jobs in 1982 was one of fewer job opportunities in the face of a higher general level of unemployment. Confirming this, nine out of ten companies responding to The Conference Board's survey reported that the youth unemployment problem in their headquarters' community had "become more severe"—due mainly to the deteriorating condition of both the national and local economies.

The self-evident greater need for employment opportunities for youth, and the concerted efforts in larger cities to generate jobs in the private sector resulted in the involvement of a larger number of businesses in 1982's summer-jobs programs. But there were fewer jobs available for young people overall.

Of the 176 companies responding to The Conference Board's survey, 70 percent indicated that they did take part in summer-job programs in 1982. This means also that one out of four companies in the selected sample of 480 firms, the major employers in cities with a population of over 250,000, provided some jobs for young people. It should be noted that some of this involvement, particularly in the companies that operate their own programs, has been part of the firms' urban programming for many years, paralleling the public summer-job programs developed in response to the riots of 1964. A majority of the involvement, however, is of recent origin and can be seen as part of the private sector's voluntary assumption of programs that had heretofore been financed almost wholly by the Federal Government.

Of the 124 companies involved in summer-job programs, 89 firms (or 72 percent) took part in programs for disadvantaged youth, and almost eight out of ten of these jobs were part of communitywide summer-job programs, where the major portion of growth in business involvement has come. Only 19 of the responding companies are now involved in single-company programs. And several of these firms participate in both community and single-firm programs.

[3] Juan Cameron, "How CETA Came To Be A Four-Letter Word," *Fortune*, April 9, 1979.

[4] National Council on Employment Policy, *CETA's Results and Their Implications*. Washington, D.C., September, 1981, p. 4.

[5] National Council for Urban Economic Development, *Legislative Report*. Washington, D.C., February 15, 1983.

[6] *National Journal*, March 5, 1983, p. 487.

Table 1: Summary of Survey on Summer-Job Programs

Kind of Program	Number of Companies	Percent of Response	Percent of Job Programs
No Summer Jobs.....	52	30%	—
All Summer Job Programs.....	124	71[a]	100%
Jobs for Disadvantaged	69	51	7
Run by company....	19	11	15
Run by community or business organization.....	70	40	56
Other Jobs Program[1] ..	35	20	28
Seasonal hirings....	22	13	18
For college students.	13	7%	11%

[1]While this category places no emphasis upon the hiring of minority and disadvantaged youth, neither does it exclude them. Some of the college internships are reserved for disadvantaged youth. In these programs, ability is the prime requirement since these jobs usually lead to regular employment.

[a]Details do not add to 100 because of rounding.

Not all of the involvement is in programs targeted for disadvantaged youth. About 50 of the firms continue to conduct summer-job operations as a means to meet seasonal staffing needs. Many of these companies often give preference to the children of regular employees.

A considerable number of companies explained that they were providing fewer jobs in 1982 than in the previous year. Only six respondents stated that they had no summer positions at all in 1982.

A little more than a quarter of the responding companies report that they have some involvement with training and hiring programs on a year-round basis, usually with the local Private Industry Council. While some of these companies do not do any specialized summer hiring, others are active in both types of activities.

What Kinds of Jobs?

As noted earlier, most of the summer jobs, as provided under public-sector programs, were routine, low-skill clerical or maintenance positions, despite the hope of the administrators of the federal programs that summer work should offer "expanded career awareness that would develop job readiness skills."[9] The majority of the jobs provided in the private-sector programs were of the same quality. Most were clerical and service (mailroom, messenger, maintenance, and the like). These jobs, like the public-sector jobs provided little, if any, training. Less than 10 percent of the companies involved in summer efforts report that they did any training. Among those that did, some provided career counseling and job-seeking information, and several others said that they gave training in communication skills. Among the nineteen companies that operated their own programs, only two provided any kind of specific skills training.

In some of the community or business organization programs, such as the New York Partnership's Summer Jobs for Youth/82 program, a serious effort was made to match openings with applicants and the program supervisors were pleased that they had substantial improvements over the past year's experiences.

A major selling point of the community-based efforts, such as the Partnership's program, is the opportunity for businesspeople to hire needy teenagers as extra help at a reasonable price. Most of the jobs are for an eight-week period, and some are less than a full forty-hour week. Thus, at a minimum wage of $3.35 per hour, costs to the employer are a little more than a total of a thousand dollars per job. This amount could be reduced a bit by the company claiming a tax credit under the federal Targeted Jobs Tax Credit program. However, fewer than 10 percent of the employers surveyed made such claims.

Motivations

The motives and incentives that are cited by the survey respondents as most important lean heavily toward social obligation. Of the fourteen reasons suggested on a checklist for participation in summer-job programs, the following three were most often cited:

- an interest in advancing opportunities for youth;
- an act of social responsibility;
- a means of practicing community involvement.

Three out of five of the next most popular motivations were directed to the firms' own needs. They included:

- good public relations for the company;
- the operational need for additional employees in the Summer;
- willingness to cooperate with local government or public institutions;
- means to help stabilize the community;
- chance to screen potential new employees.

It is interesting to note that one of the least persuasive motivations was "peer pressure from other business leaders." Yet this seems to be one of the key elements in putting together a successful community-based summer-job program.

Given all of these motivations, the summer-job experience, despite lowered goals in most communities, can be adjudged to have been relatively successful on several counts. More than 70 percent of the responding companies reported that the programs in which they participated were well run, and 66 percent say that they will

[9]Thomas A. Johnson, "Summer Jobs for Youths Gaining Full-Time Status," *The New York Times*, September 22, 1980.